

The Eisenhower 5%'s are Looking Good Again?

April 4, 2005

China and India are producing like crazy. China hard goods, India soft goods. The U.S. is purchasing like crazy, both hard and soft goods. The rest of the world is mired in Never Never Land. Europe is bogged down by welfare and bureaucratic policies along with declining populations. Japan has been and continues to be in a mild depression brought about by the excesses of the 1980's and early '90's. By the way, their population growth is also negative. In simple terms, there are only two engines of growth: Asia and the U.S. Both of these engines are accumulating debt at an ever increasing rate, particularly so in the U.S. If there is economic balance anywhere, we don't know where it is.

As we use only some form of U.S. Government Securities, our attention is focused primarily on the United States. Talk about the lack of balance, the U.S. has it in spades. After four years of unprecedented reflation activities on the part of the Federal Reserve, we still do not have the employment and income growth necessary to organically propel our economy. What we continue to have is historic debt growth taking its place and driving us on a path to levels of disequilibrium never before seen.

What about government securities? Are we not running huge government deficits? Yes we are, and if we weren't, we would be in a recession right now. Aren't we dependent on the rest of the world to buy our debt? Yes we are, and if they didn't they would be in a recession right now. The problem is that we just can't see a way out of this mess in an easy fashion. If that's the case, should we just not stay in money market funds until we determine what the light at the end of the tunnel is? Probably, to a certain extent, but at some point (and we are getting close) long-term governments need to be bought. But who will buy the debt you ask? The answer: those who seriously over-weighted their equity portfolios for years at the urging of Wall Street and pension fund consultants. The drought of income is here and a 5% coupon (or its equivalent) will not require one to drink it pretty. It will stand on its own, and is looking better each day.